



山西長城微光器材股份有限公司
SHANXI CHANGCHENG MICROLIGHT EQUIPMENT CO. LTD.*

(A joint stock limited company incorporated in the People's Republic of China)



Third Quarterly Report 2004

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risk arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities trade on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed companies.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Shanxi Changcheng Microlight Equipment Co., Ltd (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Shanxi Changcheng Microlight Equipment Co., Ltd. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: 1) the information contained in this report is accurate and complete in all material respects and not misleading; 2) there are no other matters the omission of which would make any statement in this report misleading; and 3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- For the nine months ended 30 September 2004 turnover of the Company was approximately RMB25.8 million, representing a substantial increase of approximately 27.4% over the corresponding period in the previous year.
- Profits attributable to shareholders increased by approximately 41.5% compared to the corresponding period in the previous year to approximately RMB8.7 million for the nine months ended 30 September 2004.
- The Directors have proposed to pay an interim dividend at RMB1.5 cents per share for the nine months ended 30 September 2004.

UNAUDITED THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2004

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co., Ltd. (the “Company”) is pleased to announce the unaudited results of the Company for the three months and nine months ended 30 September 2004, together with the comparative unaudited figures for the corresponding periods in 2003, as set out below:

INTERIM DIVIDEND

Subject to the approval of the shareholders of the Company at an extraordinary general meeting of the Company held on 24 December 2004, the Board proposed to declare an interim dividend of RMB1.5 cents per share in respect of the nine months ended 30 September 2004 to shareholders whose names appear on the register of members of the Company as at the close of the business on 23 December 2004. The interim dividend will be paid to shareholders of the Company on or before 25 January 2005. The register of members of the Company will be closed from 24 November 2004 to 23 December 2004, both days inclusive, during which period no share transfer shall be effected. In order to qualify for the interim dividend, all instruments of transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar, Standard Registrars Limited, at Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by no later than 4:00 p.m. on 23 November 2004.

UNAUDITED PROFIT AND LOSS ACCOUNT

For the three months and the nine months ended 30 September 2004 and 2003

		Three months ended 30 September 2004 (Unaudited) RMB'000	Three months ended 30 September 2003 (Unaudited) RMB'000	Nine months ended 30 September 2004 (Unaudited) RMB'000	Nine months ended 30 September 2003 (Unaudited) RMB'000
	<i>Notes</i>				
TURNOVER	2	8,567	7,332	25,841	20,278
Cost of sales		<u>(3,146)</u>	<u>(2,620)</u>	<u>(10,215)</u>	<u>(7,328)</u>
Gross profit		5,421	4,712	15,626	12,950
Selling and distribution expenses		(73)	(204)	(186)	(311)
Administrative expenses		(1,624)	(1,553)	(4,477)	(4,530)
Other operating expenses		<u>(2)</u>	<u>(410)</u>	<u>(23)</u>	<u>(410)</u>
PROFIT FROM OPERATING ACTIVITIES		3,722	2,545	10,940	7,699
Finance costs		<u>(288)</u>	<u>(96)</u>	<u>(661)</u>	<u>(364)</u>
PROFIT BEFORE TAX		3,434	2,449	10,279	7,335
Tax	3	<u>(512)</u>	<u>(428)</u>	<u>(1,542)</u>	<u>(1,161)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>2,922</u>	<u>2,021</u>	<u>8,737</u>	<u>6,174</u>
EARNINGS PER SHARE					
Basic (in RMB)	4	<u>0.009</u>	<u>0.007</u>	<u>0.028</u>	<u>0.020</u>
PROPOSED DIVIDENDS PER SHARE					
Basic (in RMB)	6	<u>N/A</u>	<u>N/A</u>	<u>0.015</u>	<u>N/A</u>

NOTES

1. Basis of preparation and accounting policies

The quarterly results have been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the requirements of the Rules of Governing the Listing of the Securities on GEM of the Stock Exchange. The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company’s annual financial statements for the year ended 31 December 2003.

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. Turnover and revenue

The Company is principally engaged in the design, research, development, manufacture and sale of image transmission fibre optic products in the PRC. Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, valued added tax and other taxes related to sales.

3. Tax

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax charge for the period	<u>(512)</u>	<u>(428)</u>	<u>(1,542)</u>	<u>(1,161)</u>

No provision for Hong Kong profits tax has been made as the Company had no assessable profit in Hong Kong during the period (2003: Nil).

The provision for corporate income tax (“CIT”) of the Company has been calculated at the applicable rate of tax prevailing in the area in which the Company is registered and operated, based on the existing legislation, interpretations and practices in respect thereof. According to the Income Tax Law of the PRC, as the Company operates in the high technology industrial development zone in Taiyuan, the PRC and is registered as a high technology development enterprise, it is entitled to a concessionary CIT rate of 15%, which has been applied for each of the three months and nine months ended 30 September 2003 and the corresponding periods in 2004.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

4. Earnings per share

Earnings per share have been computed by dividing the net profit from ordinary activities attributable to shareholders for the three months and nine months ended 30 September 2004, of approximately RMB2,922,000 and RMB8,737,000, respectively (three months and nine months ended 30 September 2003: approximately RMB2,021,000 and RMB6,174,000, respectively) by the 198,860,000 Domestic Shares of the Company in issue throughout the period and 110,000,000 H Shares of the Company in issue after the placing in June 2004.

The amounts of diluted earnings per share for the three months and nine months ended 30 September 2003 and the corresponding periods in 2004 have not been calculated as there were no dilutive potential ordinary shares in existence during those periods.

5. Reserves

There were no movements in the reserves other than profit attributable to shareholders of approximately RMB6,174,000 for the nine months ended 30 September 2003. The movements for the profit attributable to shareholders, dividends and net proceeds from placing of shares were approximately RMB8,737,000, RMB6,266,000 and RMB26,287,000, respectively for the nine months ended 30 September 2004.

6. Interim dividend

Subject to the approval of the shareholders of the Company at an extraordinary general meeting of the Company held on 24 December 2004, the Board proposed to declare an interim dividend of RMB1.5 cents per share in respect of the nine months ended 30 September 2004 to shareholders whose names appear on the register of members of the Company as at the close of the business on 23 December 2004. The interim dividend will be paid to shareholders of the Company on or before 25 January 2005. The dividend as declared should not be taken as an indication of the level of profit or dividend for the full year. (dividend for nine months ended 30 September 2003: Nil).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

Business review

During the period under review, the Company was principally engaged in the design, research, development, manufacture and sale of image transmission fibre optic products in the PRC.

For the nine months ended 30 September 2004, the Company reported an unaudited turnover of approximately RMB25.8 million (for the nine months ended 30 September 2003: approximately RMB20.3 million), representing an increase of approximately 27.4% from previous period's turnover. This is mainly attributable to the increase in revenue from fibre optic inverters of approximately RMB4.2 million, resulting from the higher demand and orders received from the existing customers.

The unaudited net profit from ordinary activities attributable to shareholders for the nine months ended 30 September 2004 increased by approximately 41.5% from RMB6.2 million to approximately RMB8.7 million. The increase in profit was mainly due to the increase in the sales of fibre optic inverters. Notwithstanding the increment mentioned above, the Company maintained a stable and effective overhead structure.

Prospects

With the development of digital image transmission technology, especially in the medical and commercial areas, the Directors believe that the demand for image transmission fibre optic products, which form part of the major components of digital image transmission devices, will remain strong in the future. Hence, the Directors believe that the Company is poised to experience steady growth in the future and to be one of the major manufacturers of image transmission and light transmission fibre optic products.

Liquidity and financial resources

The Company financed its operation primarily with internally generated cash flows and the balance of the net proceeds from the listing of the Company's shares on GEM on 18 May 2004.

As at 30 September 2004, the Company had total assets of approximately RMB101.4 million (31 December 2003: approximately RMB54.4 million), of which approximately RMB54.5 million (31 December 2003: approximately RMB3.5 million) were cash and bank balances.

Gearing ratio

The gearing ratio of the Company, based on total liabilities to shareholders' equity, was approximately 48.1% as at 30 September 2004 (31 December 2003: approximately 36.8%). The higher gearing ratio was due to the increase in short term borrowings and deferred income as at 30 September 2004.

Significant investment and material acquisition and disposal of subsidiaries

The Company did not hold material investments or had made any material acquisition and disposal of subsidiaries and associates during the nine months ended 30 September 2004 and the same period of last year.

Employees and remuneration policy

For the nine months ended 30 September 2004, the staff remuneration of the Company was approximately RMB5.6 million (2003: approximately RMB6.0 million) and the Company had a total of approximately 421 employees (2003: approximately 432 employees).

There is no significant change in the Company's employees and remuneration policy compared to that disclosed in the prospectus of the Company dated 10 May 2004 ("Prospectus").

Significant future investment plans and expected financial resources

Details of the significant future investment plans and the expected financial resources for capital expenses of the Company are set out in the section headed "Statement of Business Objectives" in the Prospectus. Save as disclosed above, the Company had no other significant future investment plan as at 30 September 2004.

Capital Commitment:

As at 30 September 2004 and 31 December 2003, the Company had the following significant capital commitments:

		As at 30 September 2004 (Unaudited) <i>RMB'000</i>	As at 31 December 2003 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
Contracted, but not provided for			
– Acquisition of land use right	<i>(a)</i>	<u>2,555</u>	<u>2,600</u>
Authorised, but not contracted for			
– Establishment of a joint venture	<i>(b)</i>	<u>15,000</u>	<u>15,000</u>

Notes:

- (a) On 18 December 2001, the Company entered into an agreement with Haimen, a company owned by Beijing Gensir, a shareholder of the Company, to acquire a land use right in the PRC at a consideration of RMB5,000,000. A discount of RMB2,000,000 was subsequently offered by Haimen and the reduced consideration of RMB3,000,000 was paid on 8 January 2002. The legal title of the land use right passed to the Company on 10 June 2002.

During the year ended 31 December 2002, the Company made a proposal to the management committee of the Taiyuan Economic and Technology Development Zone (the “Committee”) for the Company’s business expansion. On 16 October 2002, the Company entered into an agreement with the Committee pursuant to which the Committee agreed to provide a piece of land at a preliminary consideration of RMB6,000,000 for the development of new factories by the Company upon the approval of the aforesaid proposal. Based on a confirmation from the Committee dated 26 March 2004, the consideration for the land use right had been confirmed to be RMB6,600,000, of which RMB4,000,000 had been paid as a deposit as at 31 December 2003. A separate agreement will be entered into for the acquisition of the related land use right.

Pursuant to be aforesaid agreement, the consideration of the land use right will be adjusted to RMB14,000,000 should the Company fail to achieve an aggregate tax payment of RMB10,000,000 to the Taiyuan municipal government within three years from the commencement of production of the factories.

- (b) on 18 September 2002, the Company entered into a letter of intent with Shanxi Economic and Trade Limited Liability Company to establish a joint venture, which the Company will own a 60% interest, for the development of new factories. The Company’s contribution to the joint venture will amount to approximately RMB15,000,000. Up to the date of this report, the joint venture has not yet been established.

Commitments under operating leases:

The Company leases its office properties and land use right from Taiyuan Changcheng for the establishment of production plants under operating lease arrangements for terms ranging from five to thirty years. The Company also leases plant and equipment from Shanxi Huayuan Transport Optical Technology and Engineering Company Limited (“Shanxi Transport”) for the production of optic fibres on an annual renewal basis.

At the balance sheet dates, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 September 2004 (Unaudited) RMB'000	As at 31 December 2003 (Audited) RMB'000
Within one year	678	768
In the second to fifth years, inclusive	2,600	2,638
After five years	13,391	13,857
	<hr/> 16,669	<hr/> 17,263

Pledge of assets and banking facilities

The bank loan of RMB3,000,000 (current portion) and RMB4,000,000 (non-current portion) of the Company as at 30 September 2003 and 30 September 2004 was secured by the pledge of certain properties of Taiyuan Changcheng with the aggregate book value of approximately RMB11,790,000. The loan bears interest at the rate of 6.0% per annum and is repayable by annual instalments until 2005.

On 8 March 2004, the Company obtained a short-term bank loan of RMB8,000,000 with maturity of one year from a bank in PRC. The bank loan was guaranteed by 太原自來水公司 (Taiyuan Water Supply Company), which was counter-guaranteed by a pledged of certain land use rights held by Taiyuan Changcheng.

An application has been made and consent has been obtained from the Company's banker for the assets pledged by Taiyuan Changcheng to be released upon the listing of the shares of the Company on the GEM. This security will be replaced by corporate guarantees and/or other security to be provided by the Company. Due to the procedure for examination and approval of the land by the government has not yet completed, the assets pledged by Taiyuan Changcheng is still being used temporary.

As at 30 September 2004, the Company did not have any banking facilities obtained from bank.

Contingent liabilities

As at 30 September 2004 and 30 September 2003, the Company had no material contingent liabilities.

Disclosure under GEM Listing Rule 17.15 to 17.21

Under the Chapter 17.15 of GEM Listing Rules, a disclosure obligation arises, among other situations, where:

- (a) the relevant advance to an entity exceeds 8%

Advance to an entity

The unaudited total net asset value of the Company as at 30 September 2004 was approximately RMB68,511,000.

There is a trade receivable of an amount of approximately RMB6,557,000 from an independent party, Sunsan Im-Export as at 30 September 2004. Such receivables represented approximately 9.6% of the unaudited total net asset value. Accordingly, a disclosure obligation under paragraph 17.15 of Chapter 17 for the Company arises.

As confirmed by the directors, the trade receivables referred to above was resulted from the sale of the Company's products to such customer in the ordinary course of business of the Company. The trade receivables was unsecured, interest free and had a credit terms of between 30 to 90 days.

OTHER INFORMATION

Directors' and supervisors' interest and short positions in shares, underlying shares and debentures

As at 30 September 2004 and immediately following completion of the Placing, none of the Directors had any interest and short position in shares, underlying shares or debentures of the directors or supervisors of the Company in the registered capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO) or (b) which will be required pursuant to section 352 of the SFO to be entered in the register referred to in that section, or (c) which will be required, pursuant to the required standards of dealing by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Directors' and supervisors' rights to acquire H shares

Save as disclosed above, during the nine months ended 30 September 2004, none of the directors of the Company or the supervisors of the Company are granted options to subscribe for H shares of the Company. As at 30 September 2004, none of the directors or the supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

Share option scheme

The Company does not have share option scheme.

Substantial Shareholders

As at 30 September 2004 and immediately following completion of the Placing, so far as the Directors are aware, the persons who have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or which will be required, pursuant to section 336 of the SFO to be recorded in the register of the Company or be directly or indirectly interested in 10% or more of the nominal value of any class of issue share capital carrying rights to vote in all circumstances of general meetings of the Company are set out below:

Name (Note 1)	Nature and capacity in the shareholding of the Company	Number of Domestic Shares	Approximate percentage of holding of the Domestic Shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Taiyuan Changcheng	Registered and the beneficial owner of the Domestic Shares	80,160,000	40.31%	25.95%
Beijing Gensir	Registered and the beneficial owner of the Domestic Shares and interest in a controlled corporation	82,200,000 (Note 2)	41.34%	26.61%
Dandong Shuguang	Registered and the beneficial owner of the Domestic Shares	34,000,000	17.10%	11.01%
Taiyuan Tanghai	Registered and the beneficial owner of the Domestic Shares	24,900,000	12.52%	8.06%
Lin Yin Ping	Interest in a controlled corporation	82,200,000 (Note 3)	41.34%	26.61%
Shen Gang	Interest in a controlled corporation	24,900,000 (Note 4)	12.52%	8.06%
Li Jin Dian	Interest in a controlled corporation	34,000,000 (Note 5)	17.10%	11.01%
Zhang Wen Qin	Family	82,200,000 (Note 3)	41.34%	26.61%
Liu Gui Ying	Family	34,000,000 (Note 5)	17.10%	11.01%
Ma Fong Ping	Family	24,900,000 (Note 4)	12.52%	8.06%

* Shareholding percentages have been rounded to the nearest two decimal places.

Notes:

- Please refer to the section headed "Shareholding Structure" in the Prospectus for further details.
- Part of these Domestic Shares (24,900,000 Domestic Shares) are registered in the name of Taiyuan Tanghai. Taiyuan Tanghai is owned as to approximately 36.37% by Beijing Gensir. As Beijing Gensir is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Taiyuan Tanghai, for the purpose of the SFO, Beijing Gensir is deemed to be interested in the entire 24,900,000 Domestic Shares held by Taiyuan Tanghai.

3. Part of these Domestic Shares (57,300,000 Domestic Shares) are registered in the name of Beijing Gensir. Beijing Gensir is owned as to an approximately 78.52% by Lin Yin Ping, a non-executive Director. The rest of these Shares are registered in the name of Taiyuan Tanghai in which Lin Yin Ping has an indirect interest through his shareholdings in Beijing Gensir. As Lin Yin Ping is entitled to exercise of one-third or more of the voting power at the general meeting of Beijing Gensir, for the purpose of the SFO, Lin Yin Ping is deemed to be interested in the entire 57,300,000 Domestic Shares held by Beijing Gensir and 24,900,000 Domestic Shares held by Taiyuan Tanghai. Ms. Zhang Wen Qin (張文琴), as the wife of Lin Yin Ping, is taken to be interested in the Shares held by Mr. Lin by virtue of Part XV of the SFO.
4. These Shares are registered in the name of Taiyuan Tanghai. Taiyuan Tanghai is owned as to approximately 47.28% by Shen Gang. As Shen Geng is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Taiyuan Tanghai, for the purpose of the SFO, Shen Geng is deemed to be interested in the entire 24,900,000 Domestic Shares held by Taiyuan Tanghai. Ms. Ma Fong Ping (馬鳳萍), as the wife of Shen Gang, is taken to be interested in the Shares held by Mr. Shen by virtue of Part XV of the SFO.
5. These Shares are registered in the name of Dandong Shuguang. Dandong Shuguang is owned as to approximately 48.11% by Li Jin Dian. As Li Jin Dian is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Dandong Shuguang, for the purpose of the SFO, Li Jin Dian is deemed to be interested in the entire 34,000,000 Domestic Shares held by Dandong Shuguang. Ms. Liu Gui Ying (劉桂英), as the wife of Li Jin Dian, is taken to be interested in the Shares held by Mr. Li by virtue of Part XV of the SFO.

Competing interest

Up to 30 September 2004, none of the directors and management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

Sponsor's interest

As notified and updated by the Company's sponsor, Deloitte & Touche Corporate Finance Limited ("DTCFL"), as at 30 September 2004, none of DTCFL, its directors, employees and their associates had an interest in the share capital of the Company, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company.

Pursuant to the sponsor agreement dated 17 May 2004 entered into between DTCFL and the Company, DTCFL will receive, fees for acting as the Company's retained sponsor for the period from 18 May 2004 up to 31 December 2006 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

Audit Committee

In compliance with Rules 5.28, 5.29 and 5.30 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, quarterly report and to provide advice and comments thereon to the Company's board of directors. The audit committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Company.

The audit committee comprises four independent non-executive Directors, Ni Guo Qiang, Shen Ming Hong, Li Li Cai and Chen Yue Jie. Ni Guo Qiang is appointed as the chairman of the audit committee.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the quarterly report for the nine months ended 30 September 2004, with the directors.

Board Practices and Procedures

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules since the shares of the Company were listed on the GEM of the Stock Exchange on 18 May 2004.

Code of conduct regarding securities transactions by directors

During the nine months ended 30 September 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

Repurchase, sale or redemption of listed securities of the Company

During the nine months ended 30 September 2004, there was no purchase, sales or redemption of the Company's listed securities by the Company.

Directors

Executive directors: Mr. Wang Gen Hai, Mr. Li Kang Sheng and Mr. Tian Qun Xu. Non-executive director: Mr. Lin Yin Ping. Independent non-executive directors: Mr. Ni Guo Qiang, Mr. Shen Ming Hong, Mr. Li Li Cai and Ms. Chen Yue Jie.

By order of the Board
Wang Gen Hai
Chairman

5 November 2004

Shanxi, the People's Republic of China